

Pop goes the payslip

Making universal credit work for families



Summary

At a time when living standards are stagnating, housing costs are rising and the jobs market is unpredictable the tax and benefits system must provide certainty and stability.

Universal credit was designed to do this. The Government's promise to make people better off for each hour they work is in danger of being broken.

We support the principles of universal credit and believe that work should always pay. An extra shift at work should mean more money in your pocket. However, our analysis shows that under universal credit many working parents will not see any financial gain if they increase their hours of work. This is because parents face additional costs, on top of travel, when they go out to work or increase their hours. This is true even with the welcome increase in support with childcare costs to 85 per cent. Extra earnings will be eaten up by reduced financial support, having to pay for school meals and the contribution to childcare costs. **In some cases, working parents will even end up worse off.**

We are proposing a small number of recommendations that wouldn't require any additional funding but would improve universal credit, give parents the choice, control and help needed to ensure that returning to work or taking on extra hours never leaves anyone worse off.

We recommend:

- Providing free school meals to all children in households receiving universal credit.
- Increasing the subsidy for childcare costs to 90 per cent.
- Allowing the second earner in a household to keep an additional £50 a month of earnings before their income from universal credit is reduced.
- Ensuring women on maternity leave get the same gain on maternity allowance as they would on statutory maternity pay.
- Ensuring widowed parents don't lose money.
- Increasing the overall funding in universal credit for disabled people.

Taken together these recommendations would cost £1.5 billion and can be paid for with one simple change.

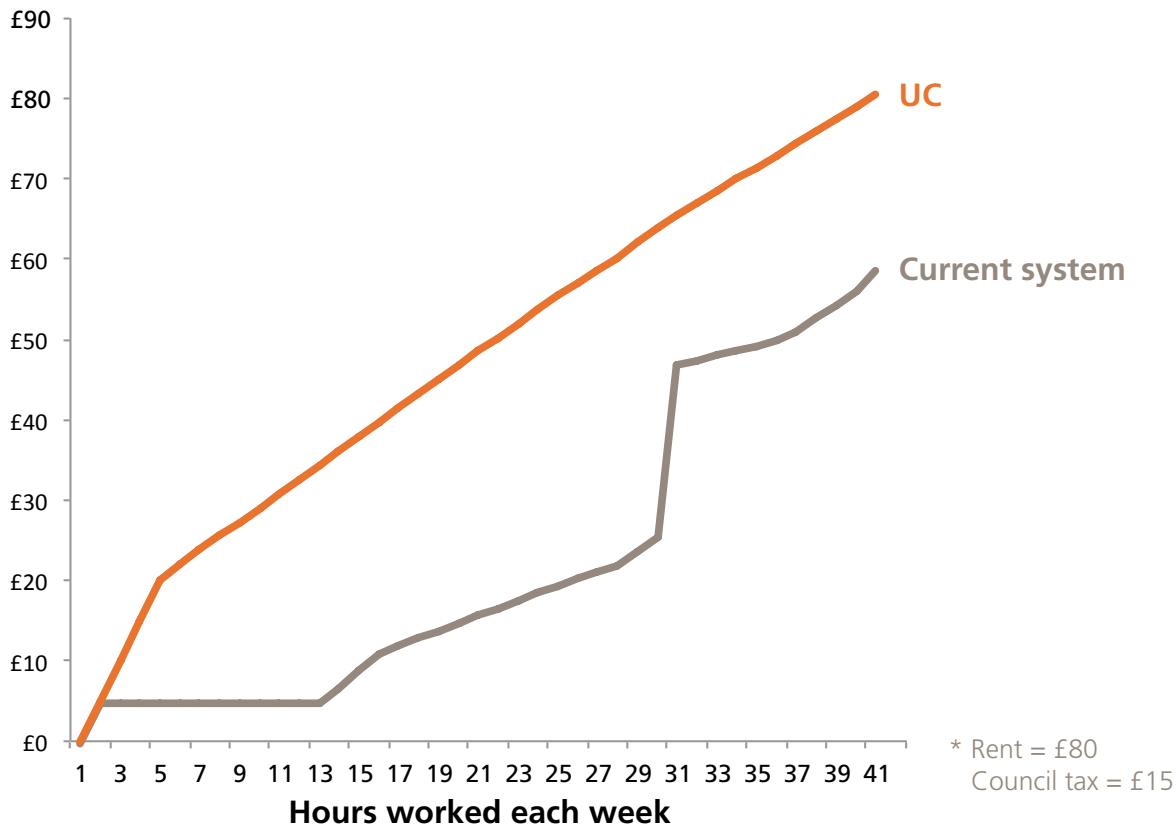
As it stands, universal credit will be reduced by £6.50 for every £10 you earn. This should be changed to £7 for every £10 earned. Increasing this 'taper' from 65 per cent to 70 per cent would effectively save £1.5 billion. The savings made would go towards helping families on the lowest incomes who stand to lose the most from working more hours. This adjustment would rebalance support more fairly within universal credit and make work pay for more people.

Universal credit will mean that people will be consistently and transparently better off for each hour they work and every pound they earn.

Our concerns

Universal credit was designed to ensure that people would always be better off for each hour they work:

The gain per week for a single person earning national minimum wage*



But it does not work in this way for low income families with children.

In fact, universal credit will leave some parents worse off if they take on extra work.

We are particularly concerned by:

1. The loss of free school meals as income rises.
2. The level of support for childcare costs.
3. The lack of a work allowance for the second earner in a household.
4. The treatment of women receiving maternity allowance.
5. The treatment of those receiving widowed parents allowance.
6. The treatment of disabled parents.

This report focuses on our first three concerns and the impact they will have on work incentives – specifically the loss of free school meals and childcare costs, which when combined will have a particularly detrimental impact.

Our concerns on women who receive maternity allowance and those getting widowed parents allowance are set out in our fuller report available at www.citizensadvice.org.uk/universalcreditcampaign

We will publish further analysis on universal credit and disabled people this summer.

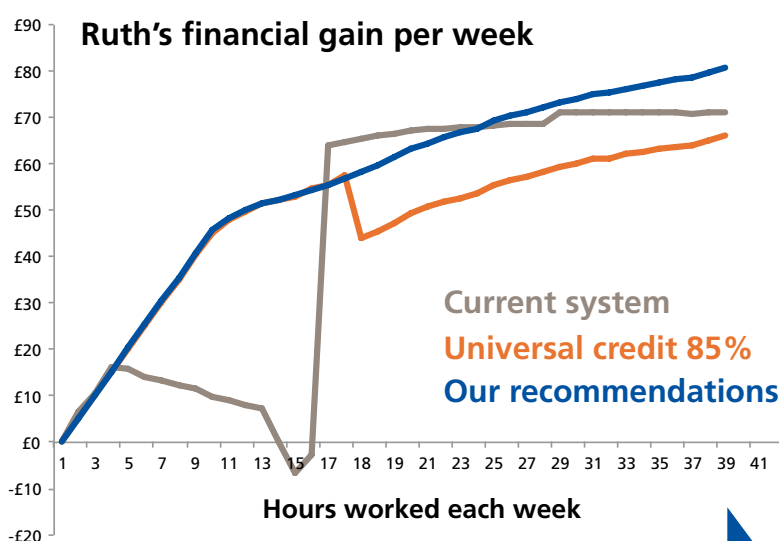
Working more hours: the impact on parents with under 11s

Ruth is a lone parent with two children at primary school, aged eight and ten. She works at her local supermarket on a 16 hour contract earning the minimum wage. Due to staff shortages, her boss has offered her an extra eight hours a week. Ruth would like to say yes as she thinks it could lead to a promotion and improve her job security.

However, under universal credit, Ruth would soon realise that when she takes into account having to pay for free school meals she will have less disposable income for working 24 hours than she would for working 16. Her contribution to her increasing childcare costs means that her gain per hour from work is so small that it takes 12 more hours to make up the £15 it costs her if her children don't receive free school meals. The extra travel costs will make her financial situation even worse.



Model © Milan Zeremski istockphoto.com



Our recommendations mean that there is a steady rise in gain from working more hours.

If Ruth works an extra **+8 hours/week** she will be:

Under
universal credit

-£3

a week worse off

and worries how she will
cover the cost of school
meals.

Under our
recommendations

+£12

a week better off

because she won't have to
pay for school meals and
her contribution to extra
childcare costs will
be less.

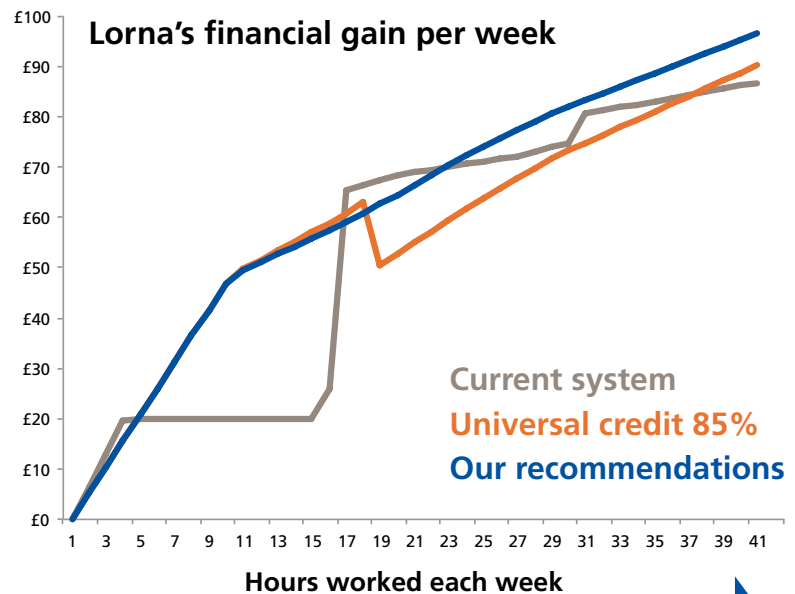
Working more hours: the impact on parents with teenagers

Lorna has two children in secondary school and works at a call centre. She earns the minimum wage and her contract is for 16 hours per week.

She has been offered one extra four hour shift and now her two sons are older she is keen to work more hours. Under universal credit, Lorna will also have to pay for school meals if she takes extra hours. With two growing boys with large appetites there is a need for a proper meal in the middle of the day. Losing free school meals will be a significant cost for Lorna. She is also worried about how she can afford to keep the boys entertained over the school holidays whilst she is at work. She's not comfortable with leaving the boys alone over the holidays but the cost of football clubs, play schemes and other activities all add up. She doesn't want to turn down the opportunity to work more hours but doesn't feel she can afford to work them.



Model © ebsstock istockphoto.com



Our recommendations mean that there is a steady rise in gain from working more hours.

If Lorna works an extra **+4 hours/week** she will be:

Under
universal credit

-£6

a week worse off

and she's concerned about
paying for school holiday
activities.

Under our
recommendations

+£7

a week better off

because she won't have to
pay for school meals for
her two sons.

Returning to work: the impact of not having a second earner work allowance

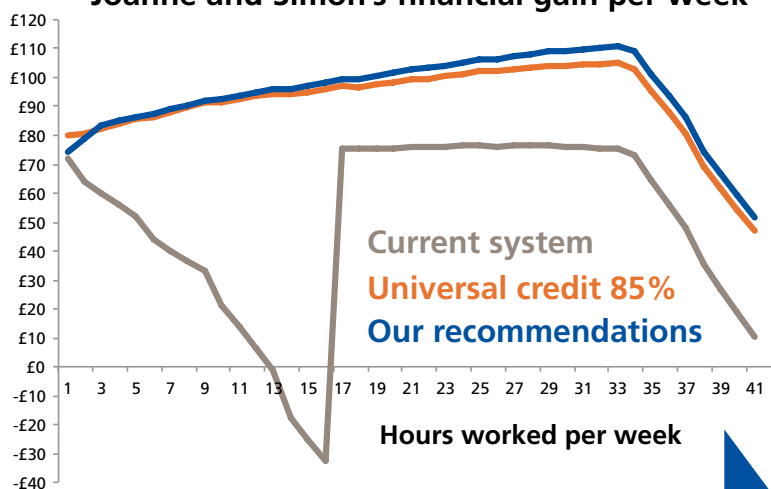
Joanne and Simon have two children aged one and three. Simon works full-time and earns £200 per week. Following maternity leave for their second child Joanne wants to return to work at a residential care home. She had left school at 16 but went on to study for a NVQ before she went on maternity leave. She now wants to resume her career at the same home as her manager has been supportive of her circumstances. Her contract is fixed at 20 hours per week.

Under universal credit, if Joanne returns to work the household will only be £19 better off per week than if she stays at home and looks after the children. Once she pays her travel costs of £10 a week she will only have £9 disposable income left and she's worried about any extra childcare costs that might come up. Simon thinks it makes financial sense for Joanne to stay at home.



Image posed by models © Citizens Advice

Joanne and Simon's financial gain per week



Our recommendations mean there is more of a gain from second earners returning to work. For many low income households the extra £10 can make all the difference.

If Joanne returns to work for **20 hours/week** after travel costs she will be:

Under
universal credit

+£9

a week better off

but worries this won't cover
any unexpected childcare
costs.

Under our
recommendations

+£19

a week better off

because the first £50 she earns
won't affect their universal credit
and they'll get more help with
their childcare costs.

Conclusion

The impact of increasing the taper

Increasing the 'taper' from 65 per cent to 70 per cent would fund all our recommendations to make universal credit work for working families. The savings made would go towards helping families on the lowest incomes who stand to lose the most from working more hours.

The overall impact would be:

- Low income households with children would have the biggest financial gain. This is because these families will not have to spend as much of their income on childcare costs and school meals, leaving them with more of a disposable income.
- Low income households without children would lose a little from the change to the taper but are still likely to be better off than under the current system.
- Households with relatively high incomes would receive less support. For example, a couple living in rented accommodation costing £280 a week with two children where one person earns £45,000 per year stand to gain an extra £74 per week under the Government's proposals compared to the current system. Under our recommendations they would still gain an extra £45 per week more than the current system.



Models © John Birdsall Photography

Conclusion

This report has examined a sample of scenarios to illustrate the problems some households with children will face under universal credit.

We believe that parents on low incomes should not have to think about whether or not working more hours will benefit their family financially. However, under the current design of universal credit this will be a reality for many households.

For households with higher incomes or lower childcare costs these effects gradually lessen but they do not disappear. For families with more than two children the effects rapidly worsen.

Therefore we recommend:

- Providing free school meals to all children in households receiving universal credit.
- Increasing the subsidy for childcare costs to 90 per cent.
- Allowing the second earner in a household to keep an additional £50 a month of earnings before their income from universal credit is reduced.
- Ensuring women on maternity leave get the same gain on maternity allowance as they would on statutory maternity pay.
- Ensuring widowed parents don't lose money.
- Increasing the overall funding in universal credit for disabled people.

Our analysis clearly demonstrates that our recommendations produce better work incentives across different households earning different wages than the current proposals for universal credit.

We have published a fuller analysis of the work incentives under universal credit online at www.citizensadvice.org.uk/universalcreditcampaign

We also plan to cover the impact of universal credit on disabled people and disabled parents in a separate report later this year.

Our aims

- To provide the advice people need for the problems they face.
- To improve the policies and practices that affect people's lives.

Our principles

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. We value diversity, promote equality and challenge discrimination.



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